

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hesperia Community Library	County Newaygo
Fiscal Year End 6/30/06	Opinion Date 11/15/06	Date Audit Report Submitted to State 12/4/06	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 W. Main Street		City Fremont	State MI
Zip 49412			
Authorizing CPA Signature 	Printed Name Jodi DeKuiper	License Number 1101021180	

**HESPERIA COMMUNITY LIBRARY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
List of Principal Individuals	ii
Independent Auditor's Report	1
Management's Discussion and Analysis	2 - 4
Combined Government-Wide and Fund Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets	5
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	6
Notes to the Financial Statements	7 - 14
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	15
Budgetary Comparison Schedule - Capital Projects Fund	16
Budgetary Comparison Schedule - Debt Service Fund	17

HESPERIA COMMUNITY LIBRARY

Board Members

<u>Appointed Official</u>	<u>Position</u>
Scott DeBrot	President
Rebecca Gleason	Vice-President
Lynn Rumsey	Treasurer
Sara Kraley	Secretary
Dorothy Backus	Trustee
Sandy Sidock	Trustee
Mary Sturtevant	Trustee
Starr Gleason	Trustee

Administration

Elizabeth Nordin	Library Director
------------------	------------------



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
Hesperia Community Library
Newaygo County
Hesperia, MI 49421

Independent Auditor's Report

We have audited the accompanying financial statements of the Hesperia Community Library as of and for the year ended June 30, 2006 as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hesperia Community Library as of June 30, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Hesperia Community Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Hesperia Community Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants
November 15, 2006

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HESPERIA COMMUNITY LIBRARY

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2006

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- ? Notes A through J of the financial statements include information on the Library's General Fund under the modified accrual method. These notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- ? Note K of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- ? Note K provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.
- ? The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below contains key financial information in a condensed format:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Current Assets	\$ 412,012	\$ 416,565
Noncurrent Assets	<u>1,449,561</u>	<u>1,501,543</u>
Total Assets	1,861,573	1,918,108
Long-Term Liabilities	1,285,000	1,340,000
Other Liabilities	<u>76,280</u>	<u>73,174</u>
Total Liabilities	<u>1,361,280</u>	<u>1,413,174</u>

Management's Discussion and Analysis (Continued)

Net Assets		
Invested in Capital Assets-Net of Debt	\$ 109,561	\$ 111,543
Restricted for Capital Projects	39,402	37,314
Restricted for Debt Service	36,069	61,406
Unrestricted	<u>315,261</u>	<u>294,671</u>
Total Net Assets	<u>\$ 500,293</u>	<u>\$ 504,934</u>
Revenue		
Property Taxes	\$ 196,391	\$ 187,704
Grants	25,746	25,548
Other	<u>70,876</u>	<u>65,625</u>
Total Revenues	293,013	278,877
Expenses		
Library Services	<u>297,654</u>	<u>419,761</u>
Change in Net Assets	<u>\$ (4,641)</u>	<u>\$ (140,884)</u>

The Library as a Whole

- ? The Library's net assets increased by \$136,243 in 2006.
- ? In response to increasing costs, flat local operating revenues, and the reality of reduced grant opportunities, the hours of onsite service were reduced from 52 hours per week to 39 hours per week. This was the result of the final expenditure of grant funds that supported the increase from 35.5 hours per week in 1998. It was decided to be closed on Wednesdays rather than be open half days to save on heating and cooling costs as well as the hours allowed for staff to open and close the facility each day.
- ? The Library's primary source of revenue is property taxes, which represent 67% of total revenues for 2006 and 2005. The library also continues to rely on penal fines, which are relatively unpredictable and are received after the budget is adopted, to provide operating income. Penal fines amounted to 15% of total revenues for year ended June 30, 2006 compared to 13% for June 30, 2005.
- ? Grants from the Fremont Area Community Foundation (FACF), Marian Rumsey Fund at FACF, the Shelby Optimist Club, the Library of Michigan Foundation, and Universal Service Fund reimbursement provided additional support to the library. These supplemental revenues are vital to library services. The Board of Trustees will make a decision in late 2006 regarding unspent monies in the Capital Projects Fund at FACF.
- ? Salaries and fringe benefits are a significant expense of the Library, representing 24% of total expenses for 2006 compared to 21% in 2005.
- ? Depreciation expense for the current year represented 31% of the Library's total expenses for 2006 compared to 26% for 2005.

Management's Discussion & Analysis (Continued)

Changes in Tax Base

The taxable value of the property in the Library district has increased:

2003	\$ 103,422,522
2004	\$ 111,404,526
2005	\$ 118,210,748

The Headlee Amendment keeps the library district from benefiting from the entire increase in taxable value. The original .75 approved by the voters in 2002 was reduced each year.

The operating millage passed in 2002 expired and the voters of the Library district will be presented with a millage question in August, 2006. A lot of planning beginning in late 2005 has taken place in order to inform voters of the proposal. The board has decided to propose the same millage that was passed in 2002 feeling the climate for additional millage was lacking. Even though people are supportive, it is felt that with several millage questions being proposed to the voters it is best to be able to have a "renewal" message for the information campaign. The renewal will not provide for reinstating the hours that were reduced in July 2005.

Library's Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in Penal Fines & Personnel Services.

Capital Asset and Debt Administration

At the end of 2006, the Library had \$2,048,627 invested in land, buildings, furniture and equipment, and books and materials. The Library added \$41,214 in new equipment, building improvements and collection items during the current year. Of this total, \$5,704 was new equipment & furnishings consisting of computers & accessories, and various other small items. Building improvements amounted to \$705 and the remaining \$34,805 added consisted of new collection items including books, various audio/visual materials and additions to the music collection.

The Library's bonded indebtedness totaled \$1,340,000 at June 30, 2006. No debt was issued during the fiscal year.

Next Year's Millage Rates

The library board received notification from the Financial Consultants who conducted the 2001 bond sale, that the millage levy would be changed effective 2007. Debt millage will be levied in July rather than December. The result is that the library placed three millage levies on the 2006 L-4029. The debt millage levied in December 2006 will be for the May 2007 payment. The millage levied in July 2007 will be payments due in November 2007 and May 2008. Careful consideration was used since delinquent taxes are not received until well after the payment is due. The December 2006 levy took this into consideration. Operating millage will remain on the December tax levy.

An operating millage question to replace the levy that expired in 2005 was proposed in the August 8, 2006 election. The proposal for .75 mill was assessed by the electors 525 – 274. The millage levy will expire in 2009.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Librarian of the Hesperia Community Library, 80 S. Division Street, Hesperia, MI 49421.

HESPERIA COMMUNITY LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets

June 30, 2006

	General Fund	Debt Service Fund	Non-Major Fund	Total	Adjustments*	Statement of Activities
ASSETS						
Cash	\$ 295,378	\$ 33,771	\$ 40,107	\$ 369,256	\$ -	\$ 369,256
Due from Other Funds	-	2,298	-	2,298	(2,298)	-
Due from Other Governments	42,756	-	-	42,756	-	42,756
Land	-	-	-	-	120,000	120,000
Capital Assets, Net of Accumulated Depreciation	-	-	-	-	1,329,561	1,329,561
Total Assets	<u>\$ 338,134</u>	<u>\$ 36,069</u>	<u>\$ 40,107</u>	<u>\$ 414,310</u>	<u>\$ 1,447,263</u>	<u>\$ 1,861,573</u>
LIABILITIES & FUND EQUITY						
Liabilities						
Accounts Payable & Accrued Liabilities	\$ 4,439	\$ -	\$ 705	\$ 5,144	\$ -	\$ 5,144
Due to Other Funds	2,298	-	-	2,298	(2,298)	-
Bonds Payable, Due Within 1 Year	-	-	-	-	55,000	55,000
Deferred Revenue	16,136	-	-	16,136	-	16,136
Long-Term Liabilities						
Bonds Payable, Due After 1 Year	-	-	-	-	1,285,000	1,285,000
Total Liabilities	22,873	-	705	23,578	1,337,702	1,361,280
Fund Balance/Net Assets						
Fund Balances						
Unreserved, Undesignated	86,544	-	-	86,544	(86,544)	
Unreserved, Designated	228,717	-	-	228,717	(228,717)	
Unreserved, Reported in Capital Projects	-	-	39,402	39,402	(39,402)	
Unreserved, Reported in Debt Service	-	36,069	-	36,069	(36,069)	
Total Fund Balances	315,261	36,069	39,402	390,732	(390,732)	
Total Liabilities and Fund Balance	\$ 338,134	\$ 36,069	\$ 40,107	\$ 414,310	946,970	
Net Assets						
Invested in Capital Assets - Net of Related Debt					109,561	109,561
Restricted for Capital Projects					39,402	39,402
Restricted for Debt Service					36,069	36,069
Unrestricted					315,261	315,261
Total Net Assets					\$ 500,293	\$ 500,293

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

HESPERIA COMMUNITY LIBRARY

Statement of Governmental Revenues, Expenditures and Changes in Fund Balance/Statement of Activities June 30, 2006

	General Fund	Debt Service Fund	Non-Major Fund	Total	Adjustments*	Statement of Activities
REVENUE						
Local Sources						
Property Taxes	\$ 84,552	\$ 111,839	\$ -	\$ 196,391	\$ -	\$ 196,391
Grants	25,746	-	-	25,746	-	25,746
Penal Fines	42,756	-	-	42,756	-	42,756
Interest	6,790	487	1,057	8,334	-	8,334
Patron Fees	5,497	-	-	5,497	-	5,497
Donations & Memorials	6,664	-	-	6,664	-	6,664
Other	2,764	-	-	2,764	-	2,764
Total Local Sources	174,769	112,326	1,057	288,152	-	288,152
State Sources - State Aid	4,861	-	-	4,861	-	4,861
Total Revenue	179,630	112,326	1,057	293,013	-	293,013
EXPENDITURES						
Personnel Services	72,208	-	-	72,208	-	72,208
Capital Outlay	21,586	-	19,741	41,327	(41,108)	219
Consumable Supplies	3,817	-	-	3,817	-	3,817
Services & Charges	54,595	-	3,164	57,759	-	57,759
Miscellaneous	6,834	551	156	7,541	(106)	7,435
Depreciation	-	-	-	-	93,196	93,196
Debt Retirement	-	113,020	-	113,020	(50,000)	63,020
Total Expenditures	159,040	113,571	23,061	295,672	1,982	297,654
Excess Revenue Over (Under) Expenditures	20,590	(1,245)	(22,004)	(2,659)	(1,982)	(4,641)
Fund Balance/Net Assets - July 1, 2005	294,671	37,314	61,406	393,391	111,543	504,934
Fund Balance/Net Assets - June 30, 2006	\$ 315,261	\$ 36,069	\$ 39,402	390,732	\$ 109,561	\$ 500,293

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the financial statements are an integral part of this statement.

HESPERIA COMMUNITY LIBRARY

Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hesperia Community Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

1. **REPORTING ENTITY**
The purpose of the Hesperia Community Library is to provide library services to Newfield Township, Greenwood Township, Denver Township and the part of Beaver Township that is in the Hesperia Community School District. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this

purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the library. Revenues are derived primarily from intergovernmental activities.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

In addition, the Library reports the following non-major fund:

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$25 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and	
Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Library Books and Materials	3 - 10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and Village bill and collect the property taxes.

5. CASH AND EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. ~~FUND EQUITY~~ FUND RESERVATIONS In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, the Library did incur material over expenditures in the general fund:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Consumable Supplies	\$ 3,051	\$ 3,817	\$ (766)
Services & Charges	51,714	54,595	(2,881)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was adopted at the line item level.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other direct obligations

Notes to the Financial Statements (Continued)

of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library's funds are held at Shelby State Bank and Fifth Third Bank and are carried at cost. At June 30, 2006, they consisted of the following:

	Carrying Value	Market Value
General Fund		
Cash on Hand	\$ 50	\$ -
Money Market - Shelby State Bank	281,828	283,505
CD's - Shelby State Bank	13,500	13,500
Total General Fund	295,378	297,005
Capital Projects Fund		
Money Market - Fifth Third Bank	40,107	41,577
Debt Service Fund		
Money Market - Shelby State Bank	33,771	33,771
Total Deposits	\$ 369,256	\$ 372,353
FDIC Insured		\$ 13,500
Money Market Funds		358,853
Uninsured		-
Total Deposits		\$ 372,353

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investment in the funds comply with the investment authority noted above.

The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE D DUE FROM OTHER GOVERNMENTAL UNITS / DEFERRED REVENUE

Due from Other Governmental Units

Receivables at June 30, 2006 consisted of the following:

Newaygo County - Penal Fines	\$ 12,619
Oceana County - Penal Fines	30,137
Total Due from Other Governments	\$ 42,756

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	\$ -	\$ 16,136

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	7/1/2005			6/30/2006
Governmental Activities	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital Assets not Being Depreciated:				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
Capital Assets Being Depreciated:				
Library Collection	435,590	34,805	(120,385)	350,010
Buildings & Improvements	1,315,894	705	-	1,316,599
Equipment & Furniture	217,352	2,310	(20)	219,642
Computers	38,982	3,394	-	42,376
Total at Historical Cost	2,007,818	41,214	(120,405)	1,928,627
Less Accumulated Depreciation:				
Library Collection	(368,487)	(29,116)	120,385	(277,218)
Buildings & Improvements	(128,880)	(38,466)	-	(167,346)
Equipment & Furniture	(90,443)	(24,520)	20	(114,943)
Computers	(38,465)	(1,094)	-	(39,559)
Total Accumulated Deprec.	(626,275)	(93,196)	120,405	(599,066)
Net Capital Assets				
Being Depreciated	1,381,543	(51,982)	-	1,329,561
Total Governmental Activities				
Capital Assets-Net of Deprec.	<u>\$ 1,501,543</u>	<u>\$ (51,982)</u>	<u>\$ -</u>	<u>\$ 1,449,561</u>

Depreciation expense for the year ended June 30, 2006 is \$93,196.

Notes to the Financial Statements (Continued)

NOTE F CHANGES IN LONG-TERM DEBT

A summary of the Library's long-term debt outstanding at June 30, 2006 is as follows:

	Balance 7/1/2005	Net Borrowings (Payments)	Balance 6/30/2006	Amounts Due Within One Year
Bonds Payable - Due in annual installments of \$30,000 to \$120,000 through May 2021; interest payable semiannually at 3.0% to 4.75%	\$ 1,390,000	\$ (50,000)	\$ 1,340,000	\$ 55,000

Debt Service Requirements

The annual requirements to amortized all debt outstanding at June 30, 2006 including both principal and interest are as follows:

Year Ended June 30	Bonds Payable		
	Total	Principal	Interest
2007	\$ 116,245	\$ 55,000	\$ 61,245
2008	119,210	60,000	59,210
2009	121,870	65,000	56,870
2010	124,270	70,000	54,270
2011	126,400	75,000	51,400
2012-2016	498,214	450,000	48,214
2017-2021	799,649	565,000	234,649
Total	<u>\$ 1,905,858</u>	<u>\$ 1,340,000</u>	<u>\$ 565,858</u>

Interest expense of the Library for the year ended June 30, 2006 amounted to \$63,020.

NOTE G ENDOWMENT FUND

The Fremont Area Community Foundation holds an endowment fund which has been earmarked for the Hesperia Community Library.

	<u>6/30/2006</u>	<u>6/30/2005</u>
Marian Rumsey Fund	\$ 37,336	\$ 35,272
Branstrom Fund	107,519	96,728
Hesperia Community Library Fund	76,502	62,946
	<u>\$ 221,357</u>	<u>\$ 194,946</u>

NOTE H DESIGNATED FUND BALANCE

As of June 30, 2006 the board has designated \$228,717 for ongoing repair and maintenance needs for the library facilities.

NOTE I INTERFUND BALANCES & TRANSFERS

Interfund Balances

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 2,298	\$ -
Debt Service Fund	-	2,298
Total	<u>\$ 2,298</u>	<u>\$ 2,298</u>

Interfund balances are due to property taxes from prior years.

NOTE J RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE K RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis \$ 390,732

Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Assets	2,048,627	
Governmental Accumulated Depreciation	<u>(599,066)</u>	1,449,561

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:

Bonds Payable	(1,340,000)
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Amounts Due From/To Other Funds Within Governmental Funds:

Due From Other Funds	(2,298)	
Due to Other Funds	<u>2,298</u>	<u>-</u>

Net Assets of General Fund - Full Accrual Basis \$ 500,293

Net Change in Fund Balances - Modified Accrual Basis	\$ (2,659)
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library Books and Materials	34,805	
Capital Outlay	6,409	
Depreciation	<u>(93,196)</u>	(51,982)

Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)

50,000

Change in Net Assets of General Fund - Full Accrual Basis	<u><u>\$ (4,641)</u></u>
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HESPERIA COMMUNITY LIBRARY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2006

REVENUE	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 80,000	\$ 80,000	\$ 84,552	\$ 4,552
Grants	-	54,206	25,746	(28,460)
Penal Fines	32,000	36,000	42,756	6,756
Interest	4,000	4,000	6,790	2,790
Patron Fees	3,000	3,000	5,497	2,497
Donations & Memorials	-	7,292	6,664	(628)
Other	2,500	2,500	2,764	264
Total Local Sources	121,500	186,998	174,769	(12,229)
State Sources - State Aid	-	4,500	4,861	361
Total Revenue	121,500	191,498	179,630	(11,868)
EXPENDITURES				
Personnel Services	77,500	79,000	72,208	6,792
Capital Outlay	1,000	50,441	21,586	28,855
Consumable Supplies	3,000	3,051	3,817	(766)
Services & Charges	40,000	51,714	54,595	(2,881)
Miscellaneous	-	7,292	6,834	458
Total Expenditures	121,500	191,498	159,040	32,458
Excess Revenue Over (Under) Expenditures	-	-	20,590	20,590
Fund Balance - July 1, 2005	-	-	294,671	294,671
Fund Balance - June 30, 2006	\$ -	\$ -	\$ 315,261	\$ 315,261

HESPERIA COMMUNITY LIBRARY

Required Supplementary Information
Budgetary Comparison Schedule - Debt Service Fund
For the Year Ended June 30, 2006

REVENUE	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 112,133	\$ 112,133	\$ 111,839	\$ (294)
Interest	240	240	487	247
Total Revenue	112,373	112,373	112,326	(47)
EXPENDITURES				
Debt Service	143,642	143,642	113,020	30,622
Miscellaneous	600	600	551	49
Total Expenditures	144,242	144,242	113,571	30,671
Excess Revenue Over (Under) Expenditures	(31,869)	(31,869)	(1,245)	30,624
Fund Balance - July 1, 2005	34,513	34,513	37,314	2,801
Fund Balance - June 30, 2006	<u>\$ 2,644</u>	<u>\$ 2,644</u>	<u>\$ 36,069</u>	<u>\$ 33,425</u>



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



November 15 2006

Library Board
Hesperia Community Library
Hesperia, MI 49421

Dear Board Members:

In connection with our recent examination of the financial statements of the Hesperia Community Library for the year ended June 30, 2006 we offer the following comments and recommendations.

PRIOR YEAR RECOMMENDATIONS

We are pleased to see that the Library implemented last years recommendation of including grant revenues & expenditures in the budget.

CURRENT YEAR RECOMMENDATIONS

Books and Records - As always, the Library's books and records are maintained in excellent condition. Your officials are an example for others to follow in this area.

Bonuses - During our audit, we noted that bonuses approved by the Board were not include in payroll. If the amount approved is what the Board would like the employee to take home, then the amount would need to be grossed up. For example, in order for bonus of \$100 to be realized after taxes, a larger amount (to include taxes) would need to be approved.

Budgeting -We noted that the Library improved the budgeting process for the year ended June 30, 2006. The Director did a great job of reflecting the library as a whole as well as providing the detail needed for the Board to make informed decisions regarding grants and donations. However, after all audit adjustments were made, the library continued to have some small over expenditures. The State does not allow for any over expenditures, even small ones. Therefore, we recommend that the final amended budget include some allowance for payables and reclassifications which may be required during the audit.

Fixed Assets - We have updated your fixed asset listing to include the current year transactions and depreciation calculation. We ask that you restore the asset listing from your thumb drive and update your asset manager software.

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November 15, 2006

Page 2

Thank you for the courtesy extended us during our audit. We will be happy to assist with any of our current recommendations and we look forward to continuing to serve Hesperia Community Library.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jodi DeKuiper, CPA".

Jodi DeKuiper, CPA
Hendon & Slate, P.C.